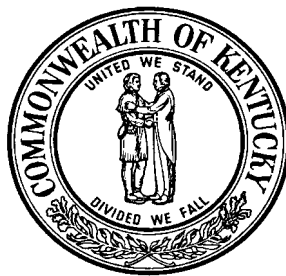


**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BRECKINRIDGE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

The Auditor of Public Accounts has completed the audit of the Breckinridge County Fiscal Court for fiscal year ended June 30, 2008. We have issued an unqualified opinion on the governmental activities, business-type activities, and each major fund of Breckinridge County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$8,656,090 as of June 30, 2008. The fiscal court had unrestricted net assets of \$2,426,763 in its governmental activities as of June 30, 2008, with total net assets of \$8,644,771. In its business-type activities, total net cash and cash equivalents were \$2,263 with total net assets of \$11,319. The fiscal court had total debt principal as of June 30, 2008 of \$4,823,899 with \$212,866 due within the next year.

Report Comments:

- The County Had An Inadequate Segregation Of Duties Over The Payroll Revolving Account
- Payroll Reports To Federal And State Agencies Should Be Filed Timely And Payroll Tax Deposits And Withholding Payments To State Agencies Should Be Made Timely
- The Treasurer's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- Controls Over The Cash Receipts Function Should Be Strengthened
- The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function

Deposits:

The fiscal court's deposits as of August 31, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$457,462

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ray Powers, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Breckinridge County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Breckinridge County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Breckinridge County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Breckinridge County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Budgetary Comparison Schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ray Powers, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2009 on our consideration of Breckinridge County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comments and recommendations, included herein, which discusses the following report comments:

- The County Had An Inadequate Segregation Of Duties Over The Payroll Revolving Account
- Payroll Reports To Federal And State Agencies Should Be Filed Timely And Payroll Tax Deposits And Withholding Payments To State Agencies Should Be Made Timely
- The Treasurer's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- Controls Over The Cash Receipts Function Should Be Strengthened
- The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 24, 2009

BRECKINRIDGE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2008

Fiscal Court Members:

Ray Powers	County Judge/Executive
James Henning	Magistrate
Danny Gedling	Magistrate
Charlie Hay	Magistrate
Ronnie Robinson	Magistrate
Sam Moore	Magistrate
Joe O'Donoghue	Magistrate

Other Elected Officials:

Bradley Butler	County Attorney
Allen Shrewsberry	County Jailer
Jill Irwin	County Clerk
Connie Brumfield	Circuit Court Clerk
Todd Pate	County Sheriff
Dana Bland	Property Valuation Administrator
Tim Bandy	County Coroner

Appointed Personnel:

Randi Flood	County Treasurer
Cindy Stinnett	Finance Officer
Sherrie Ashley	Payroll Officer
Ernie Nix	Road Supervisor
Kay Brown	911 Administrator
Karen Shrewsberry	Jail Administrative Assistant

Other Key Personnel:

Marty Moore	EMA Director
Roger Jolly	Solid Waste Coordinator

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BRECKINRIDGE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,037,937	\$ 2,263	\$ 2,040,200
Receivables	10,000		10,000
Assets Held for Resale	198,826		198,826
Total Current Assets	<u>2,246,763</u>	<u>2,263</u>	<u>2,249,026</u>
Noncurrent Assets:			
Receivables	180,000		180,000
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	220,000		220,000
Buildings and Building Improvement:	7,202,716		7,202,716
Machinery and Equipment	1,374,583		1,374,583
Vehicles	183,399	9,056	192,455
Infrastructure	2,061,209		2,061,209
Total Noncurrent Assets	<u>11,221,907</u>	<u>9,056</u>	<u>11,230,963</u>
Total Assets	<u>13,468,670</u>	<u>11,319</u>	<u>13,479,989</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	212,866		212,866
Total Current Liabilities	<u>212,866</u>		<u>212,866</u>
Noncurrent Liabilities:			
Financing Obligations	4,611,033		4,611,033
Total Noncurrent Liabilities	<u>4,611,033</u>		<u>4,611,033</u>
Total Liabilities	<u>4,823,899</u>		<u>4,823,899</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	6,218,008	9,056	6,227,064
Unrestricted	2,426,763	2,263	2,429,026
Total Net Assets	<u>\$ 8,644,771</u>	<u>\$ 11,319</u>	<u>\$ 8,656,090</u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	<u>Program Revenues Received</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 2,005,631	\$ 48,672	\$ 433,858	\$ 118,500
Protection to Persons and Property	1,847,560	2,046,947	212,282	
General Health and Sanitation	94,202			
Social Services	380,767		86,062	
Recreation and Culture	91,310	10,834		
Roads	1,600,012		1,301,371	491,457
Bus Services	108,642		61,841	
Debt Service	282,018			
Capital Projects	229,122			
Total Governmental Activities	<u>6,639,264</u>	<u>2,106,453</u>	<u>2,095,414</u>	<u>609,957</u>
Business-type Activities:				
Jail Canteen	210,391	211,947		
Total Business-type Activities	<u>210,391</u>	<u>211,947</u>		
Total	<u>\$ 6,849,655</u>	<u>\$ 2,318,400</u>	<u>\$ 2,095,414</u>	<u>\$ 609,957</u>

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Property Taxes
Insurance Premium Tax
In Lieu Tax Payments
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Income

Gain on Disposed of Assets

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,404,601)	\$	\$ (1,404,601)
411,669		411,669
(94,202)		(94,202)
(294,705)		(294,705)
(80,476)		(80,476)
192,816		192,816
(46,801)		(46,801)
(282,018)		(282,018)
(229,122)		(229,122)
(1,827,440)		(1,827,440)
	1,556	1,556
	1,556	1,556
(1,827,440)	1,556	(1,825,884)
676,986		676,986
41,357		41,357
160,171		160,171
765,214		765,214
14,310		14,310
310,479		310,479
122,208		122,208
345,488		345,488
21,743		21,743
6,158		6,158
2,464,114		2,464,114
636,674	1,556	638,230
8,008,097	9,763	8,017,860
\$ 8,644,771	\$ 11,319	\$ 8,656,090

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008

BRECKINRIDGE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	LGEA Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,008,416	\$ 470,571	\$ 447,517	\$ 111,433	\$ 2,037,937
Total Assets	<u>1,008,416</u>	<u>470,571</u>	<u>447,517</u>	<u>111,433</u>	<u>2,037,937</u>
FUND BALANCES					
Unreserved:					
General Fund	1,008,416				1,008,416
Special Revenue Funds		470,571	447,517	111,433	1,029,521
Total Fund Balances	<u>\$ 1,008,416</u>	<u>\$ 470,571</u>	<u>\$ 447,517</u>	<u>\$ 111,433</u>	<u>\$ 2,037,937</u>

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 2,037,937
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Note Receivable Is Not Considered A Current Resource And Therefore, Is Not Reported In The Funds.	190,000
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	14,691,293
Accumulated Depreciation	(3,649,386)
Assets Held For Resale Are Not Current Financial Resources And, Therefore, Are Not Reported In The Funds.	198,826
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Due Within One Year - Financing Obligation Principal Payments	(212,866)
Due In More Than One Year - Financing Obligation Principal Payments	<u>(4,611,033)</u>
Net Assets Of Governmental Activities	<u>\$ 8,644,771</u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	LGEA Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,954,081	\$	\$	\$	\$ 1,954,081
In Lieu Tax Payments	14,310				14,310
Excess Fees	90,839				90,839
Licenses and Permits	41,777				41,777
Intergovernmental	750,230	1,792,828	2,073,020	86,062	4,702,140
Charges for Services	12,234		109,228		121,462
Miscellaneous	85,885	69,632	11,449	10,283	177,249
Interest	12,087	5,969	2,495	1,192	21,743
Total Revenues	<u>2,961,443</u>	<u>1,868,429</u>	<u>2,196,192</u>	<u>97,537</u>	<u>7,123,601</u>
EXPENDITURES					
General Government	640,633				640,633
Protection to Persons and Property	333,120		1,433,610	18,060	1,784,790
General Health and Sanitation	94,202				94,202
Social Services	363,094			14,500	377,594
Recreation and Culture	54,378			29,568	83,946
Roads		2,048,198			2,048,198
Bus Services	108,642				108,642
Debt Service	19,906	17,802	437,751		475,459
Capital Projects	1,751	227,371			229,122
Administration	941,032	135,215	249,098		1,325,345
Total Expenditures	<u>2,556,758</u>	<u>2,428,586</u>	<u>2,120,459</u>	<u>62,128</u>	<u>7,167,931</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>404,685</u>	<u>(560,157)</u>	<u>75,733</u>	<u>35,409</u>	<u>(44,330)</u>
Other Financing Sources (Uses)					
Transfers Out	(158,049)				(158,049)
Transfers In		111,849	46,200		158,049
Proceeds From Sale of Assets Held For Resale		167,860			167,860
Total Other Financing Sources (Uses)	<u>(158,049)</u>	<u>279,709</u>	<u>46,200</u>		<u>167,860</u>
Net Change in Fund Balances	246,636	(280,448)	121,933	35,409	123,530
Fund Balances - Beginning (Restated)	761,780	751,019	325,584	76,024	1,914,407
Fund Balances - Ending	<u>\$ 1,008,416</u>	<u>\$ 470,571</u>	<u>\$ 447,517</u>	<u>\$ 111,433</u>	<u>\$ 2,037,937</u>

The accompanying notes are an integral part of the financial statements.

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**BRECKINRIDGE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 123,530
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	790,826
Depreciation Expense	(438,595)
Book Value Of Capital Assets Disposed	(46,892)
Assets Held For Resale Disposed	(184,462)
Purchase Of Asset Held For Resale	198,826
The Issuance Of Long-term Debt (e.g. Financing Obligations) Provides Current Financial Resources To Governmental Funds While Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.	
Financing Obligation Payments	203,441
Payments Received On Notes Receivable Provide A Current Financial Resource To Governmental Funds While Reducing The Receivable At The Government-Wide Level. Therefore, The Activity Has Been Eliminated On The Statement Of Activities.	
	<u>(10,000)</u>
Change In Net Assets of Governmental Activities	<u><u>\$ 636,674</u></u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 2,263
Total Current Assets	<u>2,263</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles	18,485
Less Accumulated Depreciation	<u>(9,429)</u>
Total Noncurrent Assets	<u>9,056</u>
Total Assets	<u><u>11,319</u></u>
Net Assets	
Invested In Capital Asset,	
Net of Related Debt	9,056
Unrestricted	<u>2,263</u>
Total Net Assets	<u><u>\$ 11,319</u></u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS – PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS – PROPRIETARY FUND- MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 196,193
Miscellaneous Receipts	2,596
Total Operating Revenues	<u>198,789</u>
Operating Expenses	
Cost of Sales	134,378
Administrative Salaries	49,017
Educational and Recreational	7,944
Depreciation	1,979
Miscellaneous Expenses	4,938
Total Operating Expenses	<u>198,256</u>
Operating Income	<u>533</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	13,158
Inmate Refunds	<u>(12,135)</u>
Total Nonoperating Revenues	<u>1,023</u>
Change in Net Assets	1,556
Total Net Assets - Beginning	<u>9,763</u>
Total Net Assets - Ending	<u><u>\$ 11,319</u></u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 196,193
Miscellaneous Receipts	2,596
Cost of Sales	(134,378)
Administrative Salaries	(49,017)
Educational and Recreational	(7,944)
Miscellaneous Expenses	(4,938)
Net Cash Provided By Operating Activities	<u>2,512</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	13,158
Inmate Refunds on Accounts	(12,135)
Net Cash Provided By Noncapital Financing Activities	<u>1,023</u>
Cash Flows From Capital And Related Financing Activities	
Purchase of Capital Assets	(5,300)
Net Cash Used By Capital And Related Financing Activities	<u>(5,300)</u>
Net Decrease in Cash and Cash Equivalents	(1,765)
Cash and Cash Equivalents - July 1, 2007	4,028
Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 2,263</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 533
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	1,979
Net Cash Provided By Operating Activities	<u><u>\$ 2,512</u></u>

The accompanying notes are an integral part of the financial statements.

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BRECKINRIDGE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS

June 30, 2008

BRECKINRIDGE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS

June 30, 2008

	Agency Fund	
	Inmate	Inmate
	Account	Escrow
	Account	Account
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 36,277	\$ 667
Total Assets	<u>36,277</u>	<u>667</u>
Liabilities		
Amounts Held In Custody For Others	36,277	667
Total Liabilities	<u>\$ 36,277</u>	<u>\$ 667</u>

The accompanying notes are an integral part of the financial statements.

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THE FINANCIAL STATEMENTS**

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**BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Breckinridge County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantially the same as the primary government. The county has no discretely presented component units.

Blended Component Unit

Breckinridge County Public Properties Corporation

The Breckinridge County Fiscal Court appoints the Breckinridge County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Breckinridge County Public Properties Corporation. However, for fiscal year ended June 30, 2008, there were not any transactions for the Breckinridge County Public Properties Corporation.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Policies (Continued)

C. Breckinridge County Elected Officials

Kentucky law provides for election of officials below from the geographic area constituting Breckinridge County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the Breckinridge County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenditures of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund, Jail Fund and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Fund:

The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency funds are used to account for monies held by the County in the Inmate Account Fund and Inmate Escrow Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Inmate Account Fund - This fund accounts for funds received from the inmates.

Inmate Escrow Account Fund - This fund accounts for funds received from the inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land and land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-15
Infrastructure	\$ 20,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require a formal budget to be adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization

A related organization is an entity for which the primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the Breckinridge County Industrial Authority is considered a related organization of the Breckinridge County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial Credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralized the fiscal court's deposits in accordance with the security agreement. The County's bank balances of \$2,449,384 were exposed to custodial credit risk as follows:

- \$457,462 unsecured and uncollateralized as of August 31, 2007

Note 3. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. The county's contributions for the years ended June 30, 2006, 2007, and 2008 were \$240,139, \$418,989, and \$383,045 respectively, and were equal to the required contributions each year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 4. Deferred Compensation

In May 2002, the Breckinridge County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Assets Held For Resale

Assets held for resale activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Assets Held For Resale:				
Vehicles	\$ 184,462	\$ 198,826	\$ 184,462	\$ 198,826
Total Assets Held For Resale	\$ 184,462	\$ 198,826	\$ 184,462	\$ 198,826

Note 6. Receivable

The Breckinridge County Fiscal Court has entered into a financing obligation on behalf of the Breckinridge County Central EMS, Inc (Central EMS) for the purpose of providing funds for the financing of the construction of the EMS building. The Breckinridge County Fiscal Court has an agreement with Central EMS that states the Central EMS will make payments for this financing obligation. Future amounts due to Breckinridge County Fiscal Court are:

Fiscal Year Ended June 30	Principal Amount
2009	\$ 10,000
2010	10,000
2011	10,000
2012	10,000
2013	10,000
2014-2018	75,000
2019-2022	65,000
Totals	<u>\$ 190,000</u>

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 220,000	\$	\$	\$ 220,000
Total Capital Assets Not Being Depreciated	220,000			220,000
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	9,607,950			9,607,950
Machinery and Equipment	1,974,831	21,864	(190,390)	1,806,305
Vehicles	441,441	80,957	(38,000)	484,398
Infrastructure	1,884,635	688,005		2,572,640
Total Capital Assets Being Depreciated	13,908,857	790,826	(228,390)	14,471,293
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(2,298,547)	(106,687)		(2,405,234)
Machinery and Equipment	(506,455)	(72,447)	147,180	(431,722)
Vehicles	(283,506)	(51,811)	34,318	(300,999)
Infrastructure	(303,781)	(207,650)		(511,431)
Total Accumulated Depreciation	(3,392,289)	(438,595)	181,498	(3,649,386)
Total Capital Assets, Being Depreciated, Net	10,516,568	352,231	(46,892)	10,821,907
Governmental Activities Capital Assets, Net	<u>\$10,736,568</u>	<u>\$ 352,231</u>	<u>\$ (46,892)</u>	<u>\$ 11,041,907</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 13,185	\$ 5,300	\$	\$ 18,485
Total Capital Assets Being Depreciated	13,185	5,300		18,485
Less Accumulated Depreciation For:				
Vehicles	(7,450)	(1,979)		(9,429)
Total Accumulated Depreciation	(7,450)	(1,979)		(9,429)
Business-Type Activities Capital Assets, Net	<u>\$ 5,735</u>	<u>\$ 3,321</u>	<u>\$ 0</u>	<u>\$ 9,056</u>

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities</u>	
General Government	\$ 49,928
Protection to Persons and Property	130,725
Social Services	3,173
Recreation and Culture	7,364
Roads	<u>247,405</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 438,595</u>
<u>Business-Type Activities</u>	
Jail Canteen Fund	<u>\$ 1,979</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,979</u>

Note 8. Financing Obligations

A. Courthouse Renovation

On January 6, 1994, the Breckinridge County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the sum of \$250,000 at a 4.621% interest rate. The financing obligation was used for the courthouse renovation. The maturity date of the obligation is February 1, 2014. The balance of the obligation at June 30, 2008, was \$87,000. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u>	<u>Principal</u> <u>Amount</u>	<u>Scheduled</u> <u>Interest</u>
2009	\$ 16,000	\$ 3,263
2010	17,000	2,597
2011	17,000	1,906
2012	18,000	1,200
2013	<u>19,000</u>	<u>453</u>
Totals	<u>\$ 87,000</u>	<u>\$ 9,419</u>

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 8. Financing Obligations (Continued)

B. Detention Facility

On February 26, 1998, the Breckinridge County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the sum of \$5,300,000 at a 5.64% interest rate. The financing obligation was for construction of the Detention Facility. On January 31, 2000, the Fiscal Court refinanced in the amount of \$5,500,000 at a 5.30% effective interest rate. The maturity date of the obligation is January 20, 2025. The balance of the obligation at June 30, 2008, was \$4,515,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal Amount	Scheduled Interest
2009	\$ 172,000	\$ 264,361
2010	181,000	253,425
2011	190,000	241,943
2012	200,000	229,859
2013	210,000	217,169
2014-2018	1,228,000	870,821
2019-2023	1,581,000	437,964
2024-2025	753,000	27,226
Totals	<u>\$ 4,515,000</u>	<u>\$ 2,542,768</u>

C. EMS Building

On June 18, 2002, the Breckinridge County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the sum of \$250,000 at a 4.38% effective interest rate. The financing obligation was used for the construction of the EMS building. The maturity date of the obligation is July 20, 2022. On August 12, 2002, the Breckinridge County Fiscal Court entered into an agreement with Breckinridge County Central EMS, Inc. The Agreement states that Breckinridge County Central EMS, Inc. will make the payments for this lease. The balance of the obligation at June 30, 2008, was \$190,000. Annual debt service payments to maturity are as follows:

Fiscal Year Ended June 30	Principal Amount	Scheduled Interest
2009	\$ 10,000	\$ 8,774
2010	10,000	9,076
2011	10,000	8,560
2012	10,000	8,043
2013	10,000	7,527
2014-2018	75,000	26,775
2019-2022	65,000	7,377
Totals	<u>\$ 190,000</u>	<u>\$ 76,132</u>

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 8. Financing Obligations (Continued)

D. Double Drum Asphalt Compactor

On May 9, 2006, the Breckinridge County Fiscal Court entered into an agreement with Citigroup Vendor Finance, Inc. in the sum of \$63,200 at a 5.130% interest rate. The financing obligation was used for Double Drum Asphalt Compactor. The maturity date of the obligation is June 1, 2010. The balance of the obligation at June 30, 2008 was \$31,899. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal Amount	Scheduled Interest
2009	\$ 14,866	\$ 1,185
2010	17,033	477
Totals	<u>\$ 31,899</u>	<u>\$ 1,662</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 5,027,340</u>	<u>\$ 0</u>	<u>\$ 203,441</u>	<u>\$ 4,823,899</u>	<u>\$ 212,866</u>

Note 9. Interest on Financing Obligations

Debt Service on the Statement of Activities includes \$281,726 in interest on financing obligations.

Note 10. Insurance

For the fiscal year ended June 30, 2008, Breckinridge County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 11. Related Party Transactions

During fiscal year ended June 30, 2008, the fiscal court made expenditures to an auto parts store owned by the County Treasurer's father. The total of the expenditures to the auto parts store was \$11,635. These transactions do not appear to be in violation of the county's code of ethics.

Also, during fiscal year ended June 30, 2008, the fiscal court made an expenditure to the County Judge/Executive's brother-in-law for the installation of guttering. The cost of the guttering was \$720. This transaction does not appear to be in violation of the county's code of ethics.

Note 12. Prior Period Adjustments

The prior year net asset ending balances have been restated for the following:

	Governmental Activities
Net Assets Ending Balance Prior Year	\$ 7,882,545
Plus:	
Disaster Relief Project Account Not Included In Prior Year - General Fund	7,995
General Fund Prior Year Voided Checks	350
Road Fund Prior Year Voided Checks	365
Subtotal To Cash Adjustment	8,710
Less:	
Financing Obligation Not Included In Prior Year	(47,340)
Plus:	
Capital Assets Not Included In Prior Year	328,000
Accumulated Depreciation Of Capital Assets Not Included In Prior Year	(30,786)
Less:	
Capital Assets Erroneously Included In Prior Year	(144,424)
Accumulated Depreciation Of Capital Assets Erroneously Included In Prior Year	11,392
Subtotal To Asset Adjustment	164,182
Net Assets Beginning Balance - Restated	\$ 8,008,097

Note 13. Subsequent Events

A. First Mortgage Revenue Bond Anticipation Notes, Series 2008

On July 22, 2008, the Breckinridge County Public Properties Corporation issued \$3,000,000 of First Mortgage Revenue Bond Anticipation Notes, Series 2008. Proceeds of the Note will be used to pay land acquisition costs, professional design fees, capitalized interest on the Notes to their due date, cost of issuance and other expenses associated with the new Breckinridge County, Kentucky Justice Center. The interest rate is 3.00%. The final maturity date of the Notes is July 1, 2010.

B. Resignation of County Treasurer

On May 11, 2009, Randi Flood resigned as the Breckinridge County Treasurer prior to the completion of the audit for fiscal year ended June 30, 2008.

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BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,578,500	\$ 1,578,500	\$ 1,954,081	\$ 375,581
In Lieu Tax Payments	6,500	6,500	14,310	7,810
Excess Fees			90,839	90,839
Licenses and Permits	13,000	13,000	41,777	28,777
Intergovernmental Revenue	901,800	1,051,800	750,230	(301,570)
Charges for Services	12,400	12,400	12,234	(166)
Miscellaneous	32,000	42,000	85,885	43,885
Interest	5,000	5,000	12,087	7,087
Total Revenues	<u>2,549,200</u>	<u>2,709,200</u>	<u>2,961,443</u>	<u>252,243</u>
EXPENDITURES				
General Government	771,040	725,388	640,633	84,755
Protection to Persons and Property	358,175	359,470	333,120	26,350
General Health and Sanitation	107,000	117,578	94,202	23,376
Social Services	622,500	613,341	363,094	250,247
Recreation and Culture	59,000	60,700	54,378	6,322
Bus Services	85,000	108,642	108,642	
Debt Service	21,000	171,000	19,906	151,094
Capital Projects		1,751	1,751	
Administration	996,791	1,022,636	941,032	81,604
Total Expenditures	<u>3,020,506</u>	<u>3,180,506</u>	<u>2,556,758</u>	<u>623,748</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(471,306)</u>	<u>(471,306)</u>	<u>404,685</u>	<u>875,991</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(151,849)</u>	<u>(151,849)</u>	<u>(158,049)</u>	<u>(6,200)</u>
Total Other Financing Sources (Uses)	<u>(151,849)</u>	<u>(151,849)</u>	<u>(158,049)</u>	<u>(6,200)</u>
Net Changes in Fund Balance	(623,155)	(623,155)	246,636	869,791
Fund Balance - Beginning (Restated)	<u>623,155</u>	<u>623,155</u>	<u>761,780</u>	<u>138,625</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,008,416</u>	<u>\$ 1,008,416</u>

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,577,473	\$ 1,977,473	\$ 1,792,828	\$ (184,645)
Miscellaneous	177,000	224,000	237,492	13,492
Interest	5,000	5,000	5,969	969
Total Revenues	1,759,473	2,206,473	2,036,289	(170,184)
EXPENDITURES				
Roads	1,567,931	2,161,315	2,048,198	113,117
Debt Service	20,000	19,505	17,802	1,703
Capital Projects	209,000	227,371	227,371	
Administration	186,500	147,240	135,215	12,025
Total Expenditures	1,983,431	2,555,431	2,428,586	126,845
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(223,958)	(348,958)	(392,297)	(43,339)
OTHER FINANCING SOURCES (USES)				
Transfers In	111,849	111,849	111,849	
Total Other Financing Sources (Uses)	111,849	111,849	111,849	
Net Changes in Fund Balance	(112,109)	(237,109)	(280,448)	(43,339)
Fund Balance - Beginning (Restated)	112,109	237,109	751,019	513,910
Fund Balance - Ending	\$ 0	\$ 0	\$ 470,571	\$ 470,571

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,839,037	\$ 1,839,037	\$ 2,073,020	\$ 233,983
Charges for Services	119,500	119,500	109,228	(10,272)
Miscellaneous	5,000	5,000	11,449	6,449
Interest	2,800	2,800	2,495	(305)
Total Revenues	1,966,337	1,966,337	2,196,192	229,855
EXPENDITURES				
Protection to Persons and Property	1,448,095	1,473,686	1,433,610	40,076
Debt Service	441,000	441,000	437,751	3,249
Administration	305,242	279,651	249,098	30,553
Total Expenditures	2,194,337	2,194,337	2,120,459	73,878
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(228,000)	(228,000)	75,733	303,733
OTHER FINANCING SOURCES (USES)				
Transfers In	40,000	40,000	46,200	6,200
Total Other Financing Sources (Uses)	40,000	40,000	46,200	6,200
Net Changes in Fund Balance	(188,000)	(188,000)	121,933	309,933
Fund Balance - Beginning	188,000	188,000	325,584	137,584
Fund Balance - Ending	\$ 0	\$ 0	\$ 447,517	\$ 447,517

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 60,000	\$ 60,000	\$ 86,062	\$ 26,062
Miscellaneous			10,283	10,283
Interest			1,192	1,192
Total Revenues	60,000	60,000	97,537	37,537
EXPENDITURES				
Protection to Persons and Property	17,500	19,710	18,060	1,650
Social Services	29,500	28,216	14,500	13,716
Recreation and Culture	27,000	34,792	29,568	5,224
Administration	10,000	1,282		1,282
Total Expenditures	84,000	84,000	62,128	21,872
Net Changes in Fund Balance	(24,000)	(24,000)	35,409	59,409
Fund Balance - Beginning	24,000	24,000	76,024	52,024
Fund Balance - Ending	\$ 0	\$ 0	\$ 111,433	\$ 111,433

BRECKINRIDGE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Note 1. Budgetary Information

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Road Fund Reconciliation

	<u>Road Fund</u>
Total Revenues - Budgetary Basis	\$ 2,036,289
Less: Proceeds from Sale of Assets Held For Resale	<u>(167,860)</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 1,868,429</u></u>
Total Other Financing Sources (Uses)	
- Budgetary Basis	\$ 111,849
Plus: Proceeds from Sale of Assets Held For Resale	<u>167,860</u>
Total Other Financing Sources (Uses)	
- Modified Cash Basis	<u><u>\$ 279,709</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ray Powers, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the governmental activities, the business-type activities, and each major fund of Breckinridge County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 24, 2009. Breckinridge County's financial statements are prepared in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Breckinridge County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Breckinridge County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Breckinridge County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting:

- The County Had An Inadequate Segregation Of Duties Over The Payroll Revolving Account
- Payroll Reports To Federal And State Agencies Should Be Filed Timely And Payroll Tax Deposits And Withholding Payments To State Agencies Should Be Made Timely



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Treasurer's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- Controls Over The Cash Receipts Function Should Be Strengthened
- The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies listed above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Breckinridge County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Breckinridge County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Breckinridge County Fiscal Court and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Crit Luallen
Auditor of Public Accounts

July 24, 2009

**BRECKINRIDGE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

BRECKINRIDGE COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2008

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

The County Had An Inadequate Segregation Of Duties Over The Payroll Revolving Account

The Treasurer performed all accounting functions related to the payroll revolving account including but not limited to: receiving and depositing receipts, signing all payroll checks with the authority to sign the County Judge/Executive's name on his behalf, preparing and signing all checks to withholding agencies such as Kentucky Department of Revenue (Revenue) and Kentucky Retirement Systems, calling in all electronic funds transfers to the Internal Revenue Service (IRS), transferring funds from other County bank accounts into the payroll revolving account, and reconciling the payroll revolving account monthly. In addition, all information related to this account came directly to the Treasurer either by hand delivery or by mail to her post office box including the bank statements, all payroll returns, correspondence from withholding agencies such as the IRS and Revenue related to late payments.

Lack of segregation of duties could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected. In addition, too much control by one individual without oversight can lead to irregularities that go undetected for months or even years.

We recommend that the County divide the responsibilities for the payroll revolving account among the Treasurer, the payroll officer, and other employees of the County in order to achieve an appropriate level of segregation of duties. Additionally, we recommend that all mail be addressed to the County's post office box only and that the Treasurer's post office box be closed.

County Judge/Executive Ray Powers' Response: The County Treasurer's Office P.O. Box will be closed and therefore all mail will be received in the Counties P.O. Box. Payroll and 941 Deposits will be deposited, reviewed, and initialed with date by the Counties Payroll Officer when completed by the County Treasurer.

Payroll Reports To Federal And State Agencies Should Be Filed Timely And Payroll Tax Deposits And Withholding Payments To State Agencies Should Be Made Timely

The Treasurer filed form 941 "Employers Quarterly Federal Tax Return" as much as five months past the due date and form K-1 "The Kentucky Employer's Return of Income Tax Withheld" as much as five months past the due date as well. Attendant with the late filings of the K-1s were late payments that were sent along with the late forms. Payment of federal withholdings is made separately from the filing of the 941 forms by making electronic funds transfers (EFT). The Treasurer made these EFT payments by telephone, and these payments were due within three (3) days of the end of the pay period for which they were withheld. These EFT payments were not made timely, but the payments were so erratic and were made for amounts not matching the actual withheld amount due so it is not possible to determine the exact number of days, weeks, or months that the payments were past due.

Failure to make filings and payments in a timely manner can subject the County to late filing and late payment penalties and interest.

BRECKINRIDGE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued)

Payroll Reports To Federal And State Agencies Should Be Filed Timely And Payroll Tax Deposits And Withholding Payments To State Agencies Should Be Made Timely (Continued)

The County incurred federal penalties and interest in the amount of \$49,623.88 and state penalties and interest in the approximate amount of \$5,764.47 for the fiscal year ended June 30, 2008. The County incurred total federal penalties and interest from the quarter ended September 30, 1999 through December 31, 2008 of \$243,148.11 and state penalties and interest from calendar year ended December 31, 2000 through December 31, 2008 of \$60,738.20.

We recommend that payroll tax returns be filed timely and that all payroll tax payments be made timely in order to avoid costly penalty and interest assessments upon County funds. The individual responsible for these filings resigned the position of Breckinridge County Treasurer following audit fieldwork but prior to release of the audit.

County Judge/Executive Ray Powers' Response: County Judge/Executive Ray Powers has been in touch with the Internal Revenue Service about possible refunds of penalties. Currently payments are being made in a timely manner and we are currently working with the Internal Revenue Service to remedy any shortfalls. In the future the County Treasurer will make 941 and Payroll Deposits and County Payroll Officer will review and initial report when completed.

The Treasurer's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations

The Treasurer prepares and deposits the receipts, posts transactions into the accounting system, prepares reports for submission to the Department for Local Government, and performs the bank reconciliations for all bank accounts.

Lack of segregation of duties could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected. In addition, too much control by one individual without oversight can lead to irregularities that go undetected.

We recommend that the County divide the responsibilities for receipts and bank reconciliations among the Treasurer, the Finance Officer, and other employees of the County in order to achieve an appropriate level of segregation of duties.

County Judge/Executive Ray Powers' Response: County Finance Officer will view Reconciliation Statements for accuracy or irregularities.

BRECKINRIDGE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued)

Controls Over The Cash Receipts Function Should Be Strengthened

Our review of insurance premium tax receipts led us to determine that confirmations should be sent to a sample of insurance companies to verify payments made to Fiscal Court that were reported by the Department of Insurance but that were not included in the County's revenues. In reviewing the files to find current addresses of insurance companies, we found unnegotiated checks from insurance companies attached to quarterly reports from June 30, 2007 and March 31, 2008 totaling \$13,985. These checks were for insurance premium tax payments and should have been deposited in the Fiscal Court's General fund bank account. Having checks remain undeposited and uncanceled exposes the Fiscal Court to the risk that assets of the County could be misappropriated. Additionally, as these receipts were not deposited, they also were never recorded on the County's books.

We recommend that checks received be deposited daily in order to assure that receipts are properly accounted for and safeguarded.

County Judge/Executive Ray Powers' Response: Requests have been made from insurance companies in question for them to reissue checks. All deposits are currently made timely.

The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function

The Payroll Clerk performs all payroll functions (e.g. timekeeping, data entry, and distribution of checks) and payroll is not subject to final approval prior to payment by someone other than the Payroll Clerk. Also, timesheets are not approved by department heads/supervisors. To adequately protect employees in the normal course of performing their assigned functions and to protect the Fiscal Court against inaccurate financial reporting, we recommend the Fiscal Court separate these duties. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the Treasurer. The employee providing the oversight should document this.

County Judge/Executive Ray Powers' Response: Payroll Officer will present Payroll Reports to the County Treasurer who will perform random checks against time cards. All supervisors will have to approve time cards with signatures and all employees will be required to sign timecards. All oversight will be documented.

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**CERTIFICATE OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BRECKINRIDGE COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2008**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BRECKINRIDGE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Breckinridge County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name
County Judge/Executive

